Distr.: General
16 January 2003

Original: English

First regular session 2003
20 to 23 January 2003, New York
Item 5 of the provisional agenda
United Nations Office for Project Services

UNOPS: Independent review pertaining to the business model and related issues of the United Nations Office for Project Services*

Joint note of the Management Coordination Committee and the Executive Director

Summary

The present conference room paper is submitted pursuant to paragraph 3 of Executive Board decision 2002/22 of 27 September 2002 and provides a revised budget proposal for an independent review pertaining to the business model and related issues of UNOPS.

Elements of a decision

On the basis of the detailed budget, the Executive Board may wish to request voluntary contributions from interested Member States to finance the independent review, as indicated in the attached terms of reference of Executive Board decision 2002/22.

I. Introduction

1. The present conference room paper provides a detailed budget for an independent review pertaining to the business model and related issues of

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

03-21257 (E) 170103 170103

UNOPS, as elaborated in the attached terms of reference for the review found in annex 1 of decision 2002/22.

2. The total cost for the independent review is estimated at $255 750.

II. Detailed budget estimate

3. The terms of reference (TOR) approved by the Executive Board foresee that the independent review will focus on the business model, competitive environment and governance structure of UNOPS (paragraph 7 of the TOR). The review will include an analysis of the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools at hand (paragraph 8 of the TOR). Comparisons will need to be made with other United Nations, multilateral, bilateral, public and private non-subsidized service providers (paragraph 13 of the TOR).

4. Upon further review of the TOR, it is confirmed that the review requires a core team of three experts in international public administration and service delivery, with specific expertise in public sector management, accounting and restructuring. The core team would be assisted by a full-time analyst to collect and analyze relevant data. The team would also draw on short-term expertise of technical consultants as required. A total of 240 days (60 days each multiplied by 4 individuals on the team) is required for the study, with half of that time spent at United Nations locations. Appropriate resources for travel have been included. The following table presents the details of the budget.

Details of budget

Component	*Cost*
International experts	
(3 x 60 days = 180 days)	$171 000
Data analyst (60 days)	$19 500
Short-term consultants (as required)	$12 000
Travel and per diem	$30 000
Sub-total	**$232 500**
Contingencies (10)	$23 250
Total	**$255 750**

Annex. Terms of reference for an independent review of the business model and related issues of the United Nations Office for Project Services (UNOPS)

Context

1. The United Nations Office for Project Services (UNOPS) was created in 1994 by General Assembly resolution 48/501 as a separate and self-financing entity of the United Nations system, effective 1 January 1995, to act as a service provider to the organizations of the United Nations system (including the Bretton Woods institutions) with no policy mandate of its own.

2. UNOPS offers a broad range of services, from overall project management to the provision of single inputs. In responding flexibly to its clients' demands, UNOPS tailors services to their particular needs, applies methods for attaining cost-effective results and mobilizes diverse implementing partners.

3. At its annual session 2002, the Executive Board of the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) expressed concern that UNOPS administrative expenditure had not been aligned with its income in the last two years, resulting in an operating deficit of $5.6 million in 2001 and the progressive erosion of its operational reserve to $5 million by the end of 2001, a level in the operational reserve substantially below that required by decision 2001/14. Accordingly, the Executive Board decided to carry out an independent review of the business model of UNOPS, its cost effectiveness and the scope for further expansion of business opportunities for UNOPS within the United Nations system in order to establish a framework for a sustainable UNOPS.

4. The Executive Board requested that the Management Coordination Committee (MCC) and UNOPS submit to the Executive Board for review and approval at its second regular session in September 2002 the draft terms of reference and a timetable for this purpose.

Objective of review

5. The purpose of the review is to formulate a forward-looking strategy for the long-term growth and sustainability of UNOPS to enable it to evolve within the readily evolving market of the United Nations system, including the Bretton Woods institutions. The review will result in a series of recommendations and action-oriented proposals for:

(a) Aligning its cost and revenue structures and identifying areas of business expansion with cost-effective operating margins;

(b) The necessary organizational and financial structure.

Scope of review

6. The Secretary-General, in his note to the Executive Board (DP/2002/CRP.5), reaffirmed his support for the work of UNOPS while laying the ground for operational improvements. Document DP/2002/CRP.5, in conjunction, inter alia, with document DP/2002/CRP.4 and Executive Board decision 2002/2 of January 2002, provides the basis for this review. These documents also reiterated fundamental principles that do not require further review.

7. The review will focus on the business model, competitive environment and the governance structure of UNOPS. The review will therefore assess the potential market for UNOPS services, the competition, including other providers of similar services both within and outside the United Nations system; and the competitive advantage of UNOPS within that marketplace.

8. The review will include an analysis of the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools at hand. Essential elements for consideration by the review include income projections methodology and application, competitiveness, cost-effectiveness and self-financing.

9. *Competitiveness*. In order to position UNOPS to compete successfully in the marketplace and thus to ensure its long-term financial viability, it will be necessary to assess the performance of UNOPS vis-à-vis currently accepted practice in international public procurement and project management. This will include a review of issues of cost-effectiveness, provision of value to the marketplace, income-projection methodology and application, openness in tendering procedures, transparency and accountability, which are central to current standards and best practices in project management and international public procurement. The review will also include an overview of the market for products and services currently offered or potentially available from UNOPS, for which there is a growing demand and for which UNOPS is able to provide quality service and cost-effective operating margins. The review should include an assessment of all possible clients within the United Nations who may have a need for such services. The review will also investigate the reasons for a loss of clients, if applicable.

10. *Cost-effectiveness*. The review should identify the extent to which revenue matches the costs of providing products or services. A review of the cost structure should include fixed and variable costs and identify scope for improved cost-effectiveness in terms of business processes and procedures, organizational structure, location and so forth.

11. *Self-financing*. This means providing accurate model(s) for measuring cost-recovery in a multi-year programme environment with operational surges and potential low periods. This should include an assessment of systems in place for monitoring and measuring costs and increasing efficiencies. Scenario-based projections of UNOPS finances and the impact on the operational reserve with details of assumptions behind the projections must be included. Systems, procedures and contractual modalities appropriate for a self-financing entity, which faces fluctuations in demand and which allows

UNOPS to moderate volatility by adapting flexibly to operational peaks and troughs, should also be considered. A review of the United Nations regulations governing staff and the operations of UNOPS should be included with a view to identify rules and regulations that are more restrictive than those of private operations, thus affecting UNOPS competitiveness. Particular attention should be paid to the possibility of flexible-staffing arrangements, rules and procedures, which allow UNOPS to expand and contract its capacity rapidly in response to changing demand.

Approach

12. The review will take stock of the conclusions and recommendations of the already available decisions, reviews and evaluations.

13. Comparisons should be made with other United Nations, multilateral, bilateral public and private non-subsidized service providers in the areas of project management, including execution, implementation, supervision, loan administration, formulation, advisory and other services, with a view to identifying good practices in terms of flexible, effective and efficient business models and processes. The comparisons will also include an assessment of and recommendations on the division of labour within the United Nations system concerning procurement services.

Outputs

14. The review will build on prior reviews in that it would present a set of recommendations and action-oriented proposals for the strengthening of the UNOPS contribution to the United Nations system for the future. Such recommendations and action proposals may include:

(a) Positioning UNOPS in the United Nations system in order to bring to full fruition the benefits derived from the UNOPS business model;

(b) Mechanisms to enable UNOPS to adjust flexibly to fluctuations in demand through a more adaptable cost structure and efficient business processes;

(c) Identification of areas of potential business growth based on market demand and cost-effective operating margins;

(d) Tools required for change-management from an organizational perspective, including, inter alia:

(i) Financial: definition of self-financing, budget cycle and operational reserve(s), accounting systems;
(ii) Human: staffing model, incentives, accountability, management of administrative costs; and
(iii) Management: structure, oversight systems and reporting to the MCC and Executive Board, information technology needs in the immediate and longer term.

Logistics and budget

15. The review team will have access to all decisions, reviews, reports and documentation, including questionnaires and surveys and field mission reports from previous reviews and studies; thus avoiding the need for further comprehensive surveys. To supplement the desk material, the team will have full access to members of the Executive Board, the current and incoming Executive Director of UNOPS, UNOPS staff, clients, beneficiaries and partners. During the review, the team will liaise with the MCC, including the Executive Director.

16. The duration of the review is estimated at 90 days. The core team will be comprised of three experts in international public administration/service delivery with specific experience in public sector management, particularly accounting and restructuring humanitarian activities of the United Nations system. The team should be able to draw on short-term consultancies, not to exceed 30 working days in total, of specialized expertise in accounting or other of organizations. One of the team members should be intimately familiar with the development cooperation market within the United Nations system. The team should also have familiarity with peacekeeping and disciplines as required. The total number of working days, therefore, is budgeted at 120, which would represent approximately $200 000.

17. The actual cost of the review will depend on team composition and overall approach to the review (inclusive or exclusive of field visits and so forth). No budgetary allocation is foreseen in the UNOPS budget approved by the Executive Board at its annual session 2002. Members of the Executive Board may wish to consider voluntary contributions to finance the review.

Distr.: General
15 January 2003

Original: English

First regular session 2003
20 to 23 January 2003, New York
Item 6 of the provisional agenda
Field visits

Field visits for 2003*

I. Background

1. The experience and success of the joint field visit of the Executive Boards of UNDP/UNFPA and the United Nations Children's Fund (UNICEF) to Viet Nam set the stage for constructive discussion at the second regular session of the UNDP/UNFPA Board in 2002 and provided an appropriate strategic approach on which to model future joint visits. The Viet Nam field visit underlined the importance of coordination within the United Nations system and between it and the international financial institutions and regional banks. Since country ownership of all United Nations-supported programmes and activities lies at the heart of operational activities, the Boards should accord high priority on their agenda to country-level experiences, which would ensure a more productive and effective relationship between the work of the Board and programme countries

2. Some delegations emphasized that future visits should pay more attention to: (a) gender issues; (b) promotion of reproductive health and HIV/AIDS activities; (c) design of sub-regional resource facility arrangements so that skill endowments reflect the changing demand; (d) closing the gap between Executive Board decisions and activities at the country level; and (e) link between upstream and downstream activities.

3. At its second regular session 2002, the UNDP/UNFPA Executive Board demonstrated the importance it attaches to field visits by adopting decision 2002/23. The decision calls on the Administrator of UNDP and the Executive Committee of the United Nations Development Group (UNDG) to consider the possibilities of an integrated field visit in 2003. It also requests that the Administrator, in consultation with the Executive Committee of UNDG, prepare a short report for the first regular session 2003 on possible ways in which the Executive Board and representatives of UNDP, UNFPA, the United Nations Development Fund for Women (UNIFEM),

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

03-21260 (E) 170103 170103

United Nations Volunteers (UNV) and the United Nations Capital Development Fund (UNCDF) in the United Nations country teams could deepen their mutual understanding of how the United Nations operational activities could respond to development challenges and possible funding modalities.

4. On 24 October 2002, the Bureau of the Executive Board of UNDP/UNFPA requested that the secretariat prepare field visit options for its consideration in December 2002. Current guidelines do not indicate how field visits should be arranged, except that the selection of countries, timing and length of visits be prepared by UNDP in consultation with UNFPA and subsequently approved by the Bureau.

5. During its informal meetings in 2002 on the mainstreaming of its working methods, the Executive Board pointed out the need for a more participatory approach in the selection of countries for field visits and in drawing up the terms of reference. The short report and the list of options for field visits called for by the Bureau respond to the recommendation by the Board in its decision 2002/23 for a more participatory approach.

6. The President of the Executive Board of UNDP/UNFPA drew the attention of the Presidents of the Executive Boards of UNICEF and the Word Food Programme (WFP) to decision 2002/23 on field visits and requested their reaction.

II. Criteria for selection of countries

7. The secretariats of the UNDP/UNFPA, UNICEF and WFP Executive Boards met and recommended that the following scenarios be considered in selecting countries for field visits. These would include countries:

(a) In transition from conflict to reconstruction and recovery;
(b) Facing serious economic challenges;
(c) Facing thematic challenges, such as HIV/AIDS, rapid population growth, gender inequality or a high proportion of youth;
(d) In which there is significant civil society involvement in development activities;
(e) In which progress has been made in coordination, coherence and harmonization among United Nations organizations.

III. Joint field visit to Mozambique

8. Mozambique was selected for the joint field visit of the Executive Boards of UNDP/UNFPA, UNICEF and WFP in 2003 following consultations among the three respective Bureaux. Mozambique is a country in transition from conflict to reconstruction and recovery. Since the signing of 1992 peace agreement, Mozambique has made considerable progress towards the consolidation of peace, democracy and economic progress.

9. Mozambique has produced one of the first second-generation United Nations Development Assistance Frameworks (UNDAFs) – UNDAF II – based on the poverty reduction strategy paper (PRSP). The United Nations system worked with the government team on the PRSP to prepare UNDAF II using a rights-based

approach. The Millennium Development Goals (MDGs) were also used to prepare United Nations interventions, with the overall objective of poverty reduction.

10. The inter-agency consultative process, including non-resident United Nations organizations, resulted in an agreement on areas of collaboration under UNDAF II. The areas of United Nations intervention include: (a) personal security covering HIV/AIDS, disaster management and mine action; (b) knowledge, long and healthy lives, including education, health and well-being; (c) sustainable livelihoods, including rural development and employment; and (d) participation, protection and equality, including democracy and decentralization, strengthening of public institutions and social communication.

11. Many United Nations organizations are involved in the Mozambique programmes. Resident organizations include the Food and Agriculture Organization of the United Nations (FAO), UNDP (including UNCDF, UNIFEM, and UNV), UNFPA, UNICEF, WFP, the World Health Organization (WHO), the World Bank and the International Monetary Fund (IMF). Non-resident United Nations organizations with activities in Mozambique include the International Labour Organization (ILO), the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), the United Nations Office for Drug Control and Crime Prevention (UNODCCP), the Office of the United Nations High Commissioner for Refugees (UNHCR) and the United Nations Industrial Development Organization (UNIDO).

12. The United Nations team has also worked closely with bilateral donors, including Denmark, Finland, France, Germany, Iceland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, the United Kingdom, the United States and the European Union.

13. Collaboration among the United Nations organizations and donors has emphasized a holistic and coordinated approach, focusing on inter-related dimensions of transition from conflict to peacebuilding, democracy and economic progress.

14. Many challenges remain. The support of development partners, therefore, is still needed in order for the Government to address the remaining challenges effectively.

15. The joint field visit, therefore, will provide Board members the opportunity to witness first hand how United Nations operational activities respond to development challenges in Mozambique. The visit might also give members of the Boards an idea about possible funding modalities. The terms of reference for the joint mission are attached to this report.

Drawing up terms of reference for the joint mission

16. The terms of reference for the joint visit have been built on the terms of reference for the mission to Viet Nam of the Executive Boards of UNDP/UNFPA and UNICEF in 2002. They reflect the characteristics of Mozambique as a country emerging from conflict to reconstruction and recovery. They were prepared by the secretariats of the three Boards in full consultation with the Bureaux of the Executive Boards of UNDP/UNFPA, UNICEF and WFP, the Executive Committee of the United Nations Development Group (UNDG) and the Government of Mozambique in consultation with resident United Nations organizations. The terms

of reference will be finalized after receiving comments from the Boards and be made available to the participants before the mission starts in March 2003.

Mission contacts in Mozambique

17. Contacts in Mozambique will include a wide spectrum of participants, such as government officials, representatives of the donor community, civil society, non-governmental organizations, the private sector, and United Nations and programme personnel.

Composition of the joint mission

18. To facilitate an effective and efficient visit, it is recommended that the size of the mission should not exceed 20 participants. Accordingly and to the extent possible, the team will include one participant from each regional group of the three Boards. Participants will in turn select the team leader(s) of the joint mission.

The duration of the joint mission

19. The duration of the visit will last ten working days, excluding travel time, in view of the large programme, the involvement of many United Nations organizations and the donor community, and the country's size. The ten-day mission should allow sufficient time for joint sessions, joint visits, separate visits by UNDP/UNFPA, UNICEF and WFP and a joint wrap-up session. The duration for each session is contained in the terms of reference.

IV. UNDP/UNFPA field visit in 2003

20. Field visits of the Executive Board of UNDP/UNFPA traditionally cover two countries and two regions each year (one country per region) based on the established geographical rotational system. Accordingly, for 2003, the field visits should take place in Latin America and the Caribbean and Eastern Europe. However, as Mozambique has already been selected for the joint mission in 2003 and given time and resource constraints, the Bureau has decided that only two countries should be visited in 2003. Following consultations with the Eastern European group, it was decided that the visit to the Eastern European region should be deferred to 2004.

21. The Latin American and Caribbean group has recommended Ecuador. At its meeting on 18 December 2002, the Bureau of the UNDP/UNFPA Executive Board endorsed Ecuador, subject to final approval by the Board.

Duration of the UNDP/UNFPA mission

22. The duration of UNDP/UNFPA field visit should be five working days, excluding travel time. Ecuador has a fairly large programme in which many United Nations organizations and bilateral donors are involved. The country also has a new Government. The five-day visit should accord the mission appropriate time to

engage in constructive dialogue with the Government, the donor community, United Nations organizations, the private sector and civil society. Out of this interaction will come a better understanding of how assistance is coordinated among United Nations organizations, between them and the Government and with other development actors. The discussions of the development challenges would also give an idea about possible ways in which the Board could mobilize resources or adopt appropriate policies.

23. The standard guidelines for the field visits for members of Executive Board of UNDP/UNFPA (DP/1995/14) will be the basis for the terms of reference for the field visit to Ecuador. The detailed programme is being prepared by UNDP and UNFPA representatives in Ecuador in consultation with Government.

Executive Board action

24. The Executive Board may wish to comment on the terms of reference for the joint mission and recommend the number of participants for the joint field visit to Mozambique.

Annex. Terms of reference for the joint field visit of the Executive Boards of UNDP/UNFPA, UNICEF and WFP to Mozambique – March 2003

Strategic intent

25. The purpose of the joint field visit is to help Executive Boards members to understand the extent and ways in which United Nations organizations contribute to achieving the transition from conflict to reconstruction and recovery in Mozambique, based on the national development strategy. The joint field visit will also allow Board members to gain insight into how the multilateral agencies can work more synergistically at the country level to support the Government in achieving these goals. Particular attention will be paid to donor coordination – both between multilaterals and with bilaterals – and harmonization aspects. The mission should also seek to identify in specific terms: (a) what the Government and the people are doing to ensure that there is no return to the crisis of the past; (b) what is unique to Mozambique that has led to such a period of sustained peace; (c) what is the impact of periodic crises caused by droughts and floods on recovery and reconstruction; and (d) what is the impact of HIV/AIDS on government development priorities and the United Nations programmes of implementation.

Methodology

26. It is recommended that the joint field visit be composed of four parts: (a) a two-day joint start of the mission; (b) a two-day joint visit to project sites; (c) five days of project visits by UNDP/UNFPA, UNICEF and WFP Executive Board members separately; and (d) a one-day joint wrap-up at the end of the mission. A detailed work programme is being prepared by the Government in consultation with the United Nations team in Mozambique.

27. Members of the UNDP/UNFPA, UNICEF and WFP Executive Boards will arrive in Maputo on the same day. The joint segment will begin with the following:

(a) A general introduction by the appropriate government authorities on the national policy for the eradication of poverty and the contribution of the United Nations system in that regard, including donor coordination;

(b) A more focused discussion with the staff of UNDP, UNFPA, UNICEF and WFP on common priority issues, such as the functioning of the resident coordinator system in the field, joint programming and perhaps a programme priority common for the four organizations, along the lines of a question and answer session or a workshop;

(c) An informal exchange with civil society on the status of its cooperation with the four organizations and a session with the bilateral donor community on aid coordination and effectiveness;

(d) A specific discussion with the heads of the United Nations organizations and the Bretton Woods institutions on the coordination and collaboration within the multilateral system, focusing on the relationship between the common country

assessment, the United Nations Development Assistance Framework, the poverty reduction strategy paper process and the Millennium Development Goals.

Chairmanship

28. The joint segment will be co-chaired by the team leader(s).

Timing

29. The dates of the field visit are tentatively as follows:

9 March	Arrival of participants
10-11 March	Joint segment
12-13 March	Joint visit to project sites
14-18 March	Project visits by UNDP/UNFPA, UNICEF and WFP Board members separately
19 March	Joint wrap-up with Government and United Nations organizations
20 March	Departure

Report

30. The rapporteurs of the three Executive Boards will prepare a joint report.